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SUBJECT: SOMALIA - Assistance to Central Government With
Non-Transparent Budget

REF: SECSTATE 1923

Summary

11. In 2009, the Transitional Federal Government (TFG) benefitted from a waiver under Section 7086 of the Department of State Foreign Operations and Related Programs Act (SFOAA) to permit the Department and USAID to provide it economic and security assistance. With Somalia at a critical juncture in its development and a key front in combating terror and extremism in FY2010 it remains important to U.S. national security interests to seek a second waiver for assistance. In the past year, the TFG has made limited progress in addressing fiscal transparency, including the publication of a national budget - for the first time since the government's creation. This budget is publicly available and reflects planned expenditures though it does not include income and actual expenditures. In a further genuine effort at fiscal transparency, the TFG contracted with the international accounting firm PriceWaterhouseCoopers to oversee the management of international contributions. Some U.S. funds have been channeled through this mechanism. Although the TFG has made progress on fiscal transparency, it still lacks the capacity to create and maintain a comprehensive budget with updated income and expenditures and will require a waiver for U.S. assistance to continue. End Summary.

TFG Expected to Receive USG Funding

12. Somalia is expected to receive funding under SFOAA. It will not receive any International Military Education and Training in FY2010 nor is it part of the African Contingency Operations Training and Assistance program or the Global Peace Operations Initiative. However, the United States will support the TFG in establishing peace and security by providing assistance for security sector reform, peace and reconciliation initiatives, and assistance to key ministries to build their capacity to deliver services. In FY2010, the U.S.G. will support interventions to generate training and employment opportunities for disadvantaged youth. The program will contribute to the design and development of a longer-term skills training and employment program linked to an anticipated disarmament, demobilization, and reintegration (DDR)

program. The United States will also support security sector reform in Somalia to establish civilian policing, facilitate criminal justice reforms, and provide anti-terrorism training and assistance.

Annual Budget - A TFG First

¶3. In December 2009 the TFG published a national budget for 2010 entitled, "Keeping Our Heads Above the Water." The budget, released by the Ministry of Finance, was described as a "transitional budget" that outlined priorities and listed specific costs for projected activities across ministries. Covering the period from January to December 2010, the budget allocates funds to strengthen security, establish key institutions to manage the economy, reclaim public property, and to achieve and maintain fiscal transparency and sustainability. This was the first time since the 2004 creation of the TFG that the transitional administration released a comprehensive budget estimate. The document is publicly available through the Ministry of Finance. The Minister of Finance presented it at the November 2009 Intergovernmental Authority on Development ministerial and

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circulated it widely to the international community. The budget does not include income and expenditures.

¶4. In October 2009, the TFG Ministry of the Treasury released a document with income and expenditure estimates from July-December, 2009. The TFG estimated revenues of USD 55.2 million, 40% representing internal revenues and 60% representing foreign aid. The estimated internal revenues would be generated from the Mogadishu port, Abdulle and Km. 50 airports, land taxes, and from other ministries that collect taxes. The TFG has not yet published a report reconciling the estimates with actual income and expenditures. While the TFG has made an effort to improve fiscal transparency by releasing these budget documents, they are not complete. Reports indicate that there are additional revenues that are under-reported or not reported at all, some of which may be diverted by officials associated with the TFG.

Events Affecting Fiscal Transparency

¶5. In January 2009, the expanded Transitional Federal Parliament elected former Chairman of the Alliance for the Re-Liberation of Somalia Sheikh Sharif Sheikh Ahmed as TFG President. Sharif's election heralded a new TFG administration which gave priority to improving financial accountability and oversight and fiscal transparency. Between February and May 2009, the TFG made initial progress in establishing controls over port and airport revenues and tracking its expenditures. However, in May, the TFG became mired in a violent conflict with the terrorist group al-Shabaab. With almost daily attacks on government officials and targets, minimal working conditions for key ministers responsible for fiscal issues did not exist. In the second half of 2009, security was the TFG's top priority and plans to improve financial oversight and fiscal transparency progressed only very slowly.

Efforts to Improve Fiscal Transparency

¶6. In July, 2009 the TFG announced that it would establish a financial accountability and integrity board as a key step in the restoration of effective governance and in building public trust. With international pledges to support security assistance and other programs, the TFG negotiated an agreement with the international accounting firm PriceWaterhouseCoopers to provide financial management of some donor funds received by the TFG. To date, the United States, China, Rwanda, and Libya have utilized this mechanism to improve oversight and accountability for bilateral contributions. The TFG is also working with the World Bank to plan for a multi-year public finance management reform program. Since last year's review, the TFG has made limited progress, but ongoing violent conflict, weak institutional capacity, and limited financial and human resources prevent it from maintaining a comprehensive and transparent budget. For these reasons, in FY2010 Somalia will still require a waiver for U.S. assistance to continue.

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